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INTRODUCTION

The Office of Internal Audit performed an audit of Bay County FIA for the period October 1, 1997 through November 24, 1998. The objectives of our audit were to determine if internal controls in place at the local office provide reasonable assurance that departmental assets are safeguarded, transactions are properly recorded on a timely basis, and policies and procedures of the Michigan Family Independence Agency (FIA) are being followed. Bay County FIA had 104 full time equated positions (FTE's) at the time of our review. Bay County FIA provided assistance to an average 9,790 recipients per month during FY 1997, with total assistance payments of \$14,920,010 during that year.

SCOPE

Our audit was conducted in accordance with Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors. We obtained descriptions of significant systems operating at Bay County FIA, documented those systems, and evaluated controls in each system. We tested the systems for compliance, where feasible. We included the following systems:

Client Processing	CIS
Cash Disbursements	Cash Receipts
General Ledger	Accounts Receivable
Safe & Controlled Documents	IRS Information Security
Food Stamp Issuance	Modified Accrual Balance Sheet

EXECUTIVE SUMMARY

Based on our audit, we concluded that the Bay County FIA internal controls were not adequate to provide management with reasonable assurance that assets are safeguarded and transactions are executed in accordance with management's authorization. We therefore performed a follow-up review on January 21 and 22, 1999, after Bay County FIA informed us that they had implemented corrective action.

Based on our follow-up review, we concluded that Bay County FIA's controls are now generally adequate to provide management with reasonable assurance that assets are safeguarded and transactions are executed in accordance with management's authorization. However, Bay County FIA disagreed with our recommendation for item number 15 and had not implemented corrective action.

FINDINGS AND RECOMMENDATIONS - COMPLIANCE

The following are areas where we found that the Bay County FIA was not operating in accordance with FIA policies and procedures that are described in manuals or instructional letters.

FIA-61 Log

1. Bay County FIA did not perform a weekly reconciliation of checks/warrants on hand to the open items on the Record and Disposition of Checks/Warrants (FIA-61), as required by Accounting Manual Item 460. At the time of our review, there were items on hand since May, 1998 that were not yet disposed of, and there were 2 items that had been disposed of, but the disposition was not recorded on the FIA-61. A weekly reconciliation is necessary for timely detection of any warrants/checks that are lost, stolen, or due for disposition, and to ensure that all checks/warrants on hand are properly recorded on the FIA-61

WE RECOMMEND that Bay County FIA perform a weekly reconciliation of checks/warrants on hand to the FIA-61, and keep posting of disposition information on the FIA-61 up-to-date.

NOTE: Bay County FIA followed up on warrants that were overdue for disposition while the auditor was still on-site.

Pending File of FIA-138/FIA-2362's

2. The Bay County FIA bookkeeper did not maintain a pending file of FIA-138's (Action Taken on State Treasurer's Warrants by Local Offices) or FIA-2362's (Services Warrants Rewrite/Disposition Request), as required by Accounting Manual Item 462. Maintaining a pending file will provide an audit trail to the FIA-61 Record and Disposition of State Warrants.

WE RECOMMEND that the Bay County FIA bookkeeper maintain a pending file of FIA-138/FIA-2362's.

Over the Counter Returned Warrants

3. Bay County FIA did not prepare an FIA-61 for returned warrants received over the counter, as required by Accounting Manual Item 460. Recording these warrants on an FIA-61 provides an audit trail to document the receipt and disposition of these warrants.

WE RECOMMEND that Bay County FIA prepare an FIA-61 for warrants received over the counter.

Payment Authorization Files

4. Bay County FIA did not maintain the files of Supplemental Payment Authorizations (FIA-13) and Authorization Invoices (FIA-849) in either alphabetical or case number order, as required by Accounting Manual Item 404. Rather, the local office was maintaining the FIA-13's in a file by month, and the FIA-849's attached to the monthly reconciliation report. Maintaining the FIA-13's and FIA-849's in either alphabetical or case number order provides an audit trail to easily detect how many supplements or emergency payments a client has received, and makes the FIA-13's and FIA-849's easy to retrieve if needed at a later date.

WE RECOMMEND that Bay County FIA maintain FIA-13's and FIA-849's in either alphabetical or case number order.

FIA-849 Payments

5. Bay County FIA did not properly reconcile all payments listed on the FIA-849 Issuance Report (ES-440) with the FIA-849 and supporting documentation. The local office was performing the reconciliation, but did not follow up on items that appeared on the ES-440 for which there was no FIA-849 on file. Follow up on items that appear on the ES-440 Report where there is no corresponding FIA-849 is necessary to ensure that FIA-849 payments are accurate and appropriate. In addition, the reconciler did not document each entry traced, as required by Accounting Manual Item 404.

WE RECOMMEND that Bay County FIA follow up on all payments that appear on the ES-440 for which there is no FIA-849 on file to ensure that the payments are appropriate.

WE ALSO RECOMMEND that the individual performing the reconciliation of the ES-440 Report document each entry that was reconciled.

Sign-O-Meter Reconciliation

6. Bay County FIA had not reconciled the Sign-O-Meter Record (FIA-4711) with the Check Register, as required by Accounting Manual Item 410.1, since July, 1998. Also, the reconciliations prior to July were not properly completed, and were not signed by the preparer's supervisor. Reconciling the Sign-O-Meter Record to the Check Register helps to ensure that all checks that were processed through the check signer are properly recorded in the accounting records.

WE RECOMMEND that Bay County FIA reconcile the Sign-O-Meter Record with the Check Register each month.

Stamping Documents "PAID"

7. Bay County FIA did not stamp supporting documents "PAID" when payment was made. Rather, the local office was stamping documents "PAID" at a later time. The Accounting Manual Items related to each payment type require that supporting documents be stamped "PAID." Stamping supporting documents "PAID" at the time payment is made helps prevent duplicate payments.

WE RECOMMEND that Bay County FIA stamp supporting documents "PAID" when payment is made.

Check Edit Listing

8. At Bay County FIA the employee who reviewed the check edit listing did not initial and date the listing. Accounting Manual Item 410 requires that the reviewer initial and date the listing to document that the review was done.

WE RECOMMEND that Bay County FIA have the reviewer date and initial the check edit listing.

NOTE: The reviewer began to initial and date the check edit listing while the auditor was still on-site.

Returning Authorization Documents to Originator

9. At Bay County FIA the accounting unit staff did not return a copy of the payment authorization document to the originator when payment was made unless the originator provided an extra copy to be used for that purpose. Accounting Manual Items related to each payment type require that a copy of the authorization be returned to the originator after payment is made. Returning copies of payment authorizations to the originator helps to detect improperly authorized payments.

WE RECOMMEND that Bay County FIA return a copy of the payment authorization form to the originator after payment is made.

Monthly Closing of Books

10. Bay County FIA did not close its books monthly, as required by Accounting Manual Item 402. As of November 13, 1998, the books had not been closed since December, 1997. Closing the books at the end of each month helps ensure accuracy of the records and prevents unauthorized transactions from being entered at a later date to avoid detection.

WE RECOMMEND that Bay County FIA close its books each month when the monthly reports are prepared.

Controlled Document Inventory and Reconciliation

11. Bay County FIA did not properly perform the month end inventory and reconciliation for bus passes and Authorization/Invoices (FIA-849), as required by Accounting Manual Item 403. We noted a difference of 40 bus passes between the Controlled Document Log and the actual count. This difference occurred because 40 passes that were put into the working inventory were not recorded as issued. We also noted a difference of 1,300 for the FIA-849's. This difference occurred because there was a break in the number sequence of these forms when they were received, but the local office recorded the first and last numbers for the documents received. A physical inventory and proper preparation of the Monthly Controlled Document Inventory and Reconciliation (FIA-4351) would have detected these discrepancies.

WE RECOMMEND that Bay County FIA perform a physical inventory and prepare the Monthly Controlled Document Inventory and Reconciliation for all controlled documents.

Outstanding Accounts Receivable Files

12. Bay County FIA did not maintain an Outstanding Accounts Receivable file for each type of billing/report/authorization used to obtain reimbursement from the State, as required by Accounting Manual Item 402.3. Maintaining these files helps the local office keep accurate records of amounts due from the State, and helps to ensure accurate reporting of accounts receivable for reporting on the Modified Accrual Basis Balance Sheet.

WE RECOMMEND that Bay County FIA maintain an Outstanding Accounts Receivable file for each type of billing/report/authorization used to obtain reimbursement from the State.

Mail Issuance Reconciliation

13. Bay County FIA did not reconcile the specific amounts and number of documents issued each month when reconciling the Mail Issuance of Food Stamps Report (FS-461) with the Food Stamp Accountability Report (FIA-181), as required by Food Stamp Issuance Instructions Manual Item 310. Rather, the local office was reconciling only to the ending amount on the FIA-181. We found a difference of one for the month of October, 1998. Reconciling the mail issuance each month helps to ensure that the food coupon mail issuance was accurate.

WE RECOMMEND that Bay County FIA reconcile the specific amounts and number of documents issued each month when reconciling the FS-461 to the FIA-181.

NOTE: Bay County FIA corrected the one document difference while the auditor was still on-site.

Food Stamps Pulled for Mail Issuance

14. Bay County FIA did not pull the exact number of food coupons needed to complete the mail issuance, as required by Food Stamp Issuance Instructions Manual Item 510. The local office pulled an excess of coupons from inventory to complete the mail issuance. Pulling only the exact number needed for issuance provides an additional control to reduce the possibility of incorrect issuances.

WE RECOMMEND that Bay County FIA pull only the exact amount of food coupons necessary to complete the mail issuance.

Shared Food Coupon Issuance Drawer

15. Bay County FIA did not always follow the issuance instructions in Food Stamp Issuance Instructions Manual Item 100. We observed a receptionist issuing food coupons from

another employee's issuance drawer. Allowing employees to issue only from their assigned issuance drawer helps to prevent unauthorized issuances and provides documentation of who performed each issuance transaction.

WE RECOMMEND that Bay County FIA allow employees to issue food coupons only from their own assigned issuance drawer.

Cash Reserve

16. Bay County FIA did not have a copy of its quadrennial Cash Reserve certification in the file, as required by Accounting Manual Item 402.6. The quadrennial certification provides documentation that the local office has determined that the amount of the Cash Reserve is consistent with the local office's need.

In addition, Bay County FIA did not have its Cash Reserve Account recorded in its General Ledger, as required by Accounting Manual Item 402.6.

WE RECOMMEND that Bay County FIA retain a copy of the quadrennial Cash Reserve certification in the Cash Reserve file.

WE ALSO RECOMMEND that Bay County FIA establish the proper accounts for the cash reserve in the General Ledger.

Unsigned Unearned Income Notice

17. Bay County FIA did not always properly safeguard unsigned Unearned Income Notices (FIA-4487A). The Designated Staff Person (DSP) was giving a copy of the unsigned

FIA-4487A to the worker for follow up with the client. Program Administrative Manual (PAM) Item 800 requires that the DSP keep the form in his/her possession to ensure that confidentiality is maintained. The DSP should inform the worker that an unsigned FIA-4487A has been received, and the worker should direct the client to the DSP to sign the form. These procedures are necessary to ensure that information obtained from the IRS remains confidential.

WE RECOMMEND that Bay County FIA ensure that all unsigned FIA-4487A's are kept by the DSP in a secure area.

Knowledge of IRS Security Procedures

18. The Bay County mailroom staff were unaware of the proper procedures to follow for confidential information received from the IRS. Department of Social Services L-Letter 94-1 states that local offices should ensure that their staff understands all aspects of the confidentiality laws. Such understanding of the laws is necessary to ensure that confidentiality is maintained for all information received from the IRS.

WE RECOMMEND that the Bay County familiarize the mailroom staff with all aspects of the confidentiality laws for information received from the IRS.

Separation of Duties - Accounts Receivable

19. Bay County FIA was not properly separating duties in the accounts receivable function. One employee was responsible for the entire accounts receivable function, and there was no independent review of the work. Accounting Manual Item 480 requires that the duties of processing, recording, and reconciling accounts receivable be separated, or that the accounts receivable function be reviewed by an independent supervisor who is not

involved in this function. Separating accounts receivable duties or having an independent review of the work helps to ensure the accuracy of the accounts receivable.

WE RECOMMEND that Bay County FIA either separate the accounts receivable duties or have an independent supervisor perform a review of the process.

Reconciliation of Accounts Receivable Reports

20. Bay County FIA did not reconcile the Automated Recoupment System (ARS) Reports, GH-280, GH-370, and GH-380, as required by Accounting Manual Item 480. These reports should be reconciled each month to ensure that all accounts receivable activity for the month was properly recorded.

WE RECOMMEND that Bay County FIA reconcile the ARS reports each month.

CIS Security Agreements

21. Bay County FIA did not have updated CIS Security Agreements (FIA-3974A) for all employees who access the Client Information System (CIS), as required by letter L-97-063. We noted that for 32 of the 110 Agreements in the file the status code differed from the status indicated on the Operator Identification Report (PF-011), and for six Agreements the status code was not indicated on the form at all. Updated CIS Security Agreements provide documentation that employees are aware of the duties and responsibilities associated with their current operator status on CIS.

WE RECOMMEND that Bay County FIA ensure that correct, up-to-date CIS Security Agreements are on file for all employees who access CIS.

Medical Transportation

22. Bay County FIA did not have the Medical Needs Statement (FIA-54A) on file for two of ten payments we tested. Accounting Manual Item 416 requires that the FIA-54A be kept on file to document the need for the transportation.

WE RECOMMEND that Bay County FIA retain a copy of the FIA-54A in the casefile for all cases where medical transportation is authorized.

Personnel Reconciling the MA-010

23. A Registration Support person at Bay County FIA who had CRS status on the Client Information System (CIS), also was the person responsible for reconciliation of the MA-010, Transaction Control Listing. L-Letter 97-063 states that the person responsible for the reconciliation must not be the CIS user who entered the transaction.

WE RECOMMEND that Bay County FIA have someone other than the Registration Support persons reconcile the MA-010.

RECOMMENDATIONS FOR IMPROVED INTERNAL CONTROLS

The following are areas where we have identified a control weakness at Bay County FIA, and we are recommending a change in procedure to reduce the risk associated with the control weakness.

MA-010 Reconciliation - Supplemental Payments

24. Bay County FIA did not reconcile a sample of the Supplemental Payments listed on the Supplemental Payments Listing (SP-270) to the Supplemental Payment Authorization (FIA-13) and other supporting documentation, as recommended by the Primary Internal

Control Criteria for FIA Local/District Office Operations. Reconciling a sample of the Supplemental Payments helps to ensure that the payments are accurate and appropriate.

WE RECOMMEND that Bay County FIA reconcile a sample of the Supplemental Payments on the SP-270 to the FIA-13's and other supporting documentation.

Bank Signature Card

25. The signature card on file at the bank for Bay County FIA did not include two individuals who are authorized to sign checks. All authorized check signers should be included on the signature card so that the bank is properly informed which signatures are acceptable when checks are presented for payment.

WE RECOMMEND that Bay County FIA keep its signature card at the bank up-to-date with authorized signatures.

Negotiables in Drop Box

26. Clients at Bay County FIA occasionally put cash or warrants in the drop box that is intended for dropping off forms that need to be returned to the local office. The drop box does not provide the necessary security over these negotiable items.

WE RECOMMEND that Bay County FIA instruct its clients to return warrants to the local office in person or through the mail, and bring cash into the local office in person.

NOTE: Bay County FIA implemented improved security procedures for negotiables received in the drop box while the auditor was still on-site.

Food Stamp Security

27. Bay county FIA did not properly secure food stamps that were prepared for daily mail issuance. The food stamps that were prepared for mailing for daily issuances were put in the mail room for affixing postage and transporting to the post office. The mail room is not a secure area. It is easily accessible to all employees.

WE RECOMMEND that Bay County FIA store food stamps that are prepared for daily mail issuance in a secure area.

Monitoring Telephone Usage

28. Bay County FIA did not have procedures in place to review telephone bills to ensure that telephone charges billed were accurate and appropriate. Reviewing telephone bills each month helps to ensure that local office staff are making only appropriate calls, and that the local office is not being overcharged for telephone service.

WE RECOMMEND that Bay County FIA review its telephone bill each month to ensure charges are accurate and appropriate.